

CITY OF ALTON, IOWA

JUNE 30, 2005

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CITY OF ALTON, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>
Ron Minten	Mayor
Jerry DeWit	Council Member
Dale Oltmans	Council Member
Leon Kleinhesselink	Council Member
John Menning	Council Member
Mark Pottebaum	Council Member
Dennis Dokter	City Clerk

CITY OF ALTON, IOWA
MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Alton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 37.5%, or approximately \$982,000 from fiscal 2004 to fiscal 2005. Bond proceeds decreased \$692,000 and grant and contribution receipts decreased \$289,000.
- Disbursements for governmental activities decreased 52.46%, or approximately \$1,194,000, in fiscal 2005 from fiscal 2004. Debt service and capital projects disbursements decreased approximately \$447,000 and \$606,000, respectively.
- Both revenues and disbursements of the City's business-type activities increased by approximately \$83,000 from fiscal 2004 to fiscal 2005. The increases were primarily in the water utility operations.
- The City's total cash basis net assets increased 38%, or approximately \$443,000, from June 30, 2004, to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$380,000, and the assets of the business-type activities increased by approximately \$63,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The government-wide financial statement consists of a statement of activities and net assets. This statement provides information about the activities of the City as a whole and presents an overall view of the city's finances.

The fund financial statements tell how governmental services were financed in the short-term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required supplemental information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other supplementary information provides detailed information about the nonmajor governmental funds. In addition, the schedule of expenditures of federal awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

GOVERNMENT-WIDE FINANCIAL STATEMENT

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The statement of activities and net assets reports information which helps answer this question.

The statement of activities and net assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities and net assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business-type activities include the electrical distribution system, waterworks, and the sanitary sewer system. These activities are financed primarily by user charges.

FUND FINANCIAL STATEMENTS

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Urban Renewal Tax Increment, and Trust & Agency, 3) the Debt Service Fund, and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements, and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business-type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and electric funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements, and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, from \$537,000 to \$917,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)

	Year Ended June 30,	
	2005	2004
Receipts and Transfers:		
Program Receipts:		
Charges for Service	\$ 70	\$ 66
Operating Grants, Contributions, and Restricted Interest	364	110
Capital Grants, Contributions, and Restricted Interest	102	645
General Receipts:		
Property Tax	501	502
Local Option Sales Tax	84	87
Grants and Contributions Not Restricted to Specific Purposes	20	

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Year Ended June 30,	
	2005	2004
Receipts and Transfers:		
General Receipts:		
Unrestricted Investment Earnings	\$ 19	\$ 20
Bond Proceeds	464	1,156
Other General Receipts	25	15
Transfers, Net	(13)	17
Total Receipts and Transfers	<u>1,636</u>	<u>2,618</u>
Disbursements:		
Public Safety	118	121
Public Works	108	100
Culture and Recreation	98	180
Community and Economic Development	173	190
General Government	89	136
Debt Service	148	595
Capital Projects	522	1,128
Total Disbursements	<u>1,256</u>	<u>2,450</u>
Increase in Cash Basis Net Assets	380	168
Cash Basis, Net Assets, Beginning of Year	<u>537</u>	<u>369</u>
Cash Basis Net Assets, End of Year	<u>\$ 917</u>	<u>\$ 537</u>

The City's total receipts for governmental activities decreased by 37.5%, or \$982,000. The total cost of all programs and services decreased by approximately \$1,194,000, or 48.7%, with no new programs added this year. The significant decrease in receipts was primarily the result of prior year bond proceeds used for capital projects and refinancing existing debt as well as prior year grants and contributions for the library capital project. The significant decrease in costs was primarily the result of fewer capital projects and debt service payments in the current year.

The cost of all governmental activities this year was \$1,256,000 compared to \$2,450,000 last year. However, as shown in the statement of activities and net assets on page 10, the amount taxpayers ultimately financed for these activities was only \$719,000 because some of the cost was paid by those directly benefited from the programs (\$70,000) or by other governments and organizations that subsidized certain programs with grants, contributions, and restricted interest (\$466,000). Overall, the City's governmental program receipts, including intergovernmental aid and fees for service, decreased in 2005 from approximately \$821,000 to approximately \$536,000, principally because the prior year included capital grant proceeds for the library and industrial park projects. Current year program receipts do include \$262,000 from the Iowa Department of Transportation as a result of the jurisdictional transfer to the City of Highway 60 in and adjoining the City. No program disbursements have been incurred yet for the Highway 60 maintenance. The City paid for the remaining "public benefit" portion of governmental activities was approximately \$585,000 in taxes (some of which could only be used for certain programs) and with \$134,000 in other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business-Type Activities (Expressed in Thousands)

	Year Ended June 30,	
	2005	2004
Receipts:		
Program Receipts:		
Charges for Service:		
Water	\$ 199	\$ 147
Sewer	99	106
Electric	558	561
General Receipts:		
Unrestricted Interest on Investments	12	14
Other General Receipts	13	
Transfers	13	(17)
Total Receipts	<u>894</u>	<u>811</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Year Ended June 30,	
	2005	2004
Disbursements and Transfers:		
Water	\$ 195	\$ 133
Sewer	85	69
Electric	543	531
Other Utility Functions	9	17
Total Disbursements and Transfers	<u>832</u>	<u>750</u>
 Increase in Cash Balance	 62	 61
 Cash Basis, Net Assets, Beginning of Year	 <u>628</u>	 <u>567</u>
 Cash Basis Net Assets, End of Year	 <u>\$ 690</u>	 <u>\$ 628</u>

Total business-type activities receipts for the fiscal year increased by \$83,000, or 10.2%, primarily due to increased water rates. Total disbursements and transfers for the fiscal year increased by \$82,000, or 10.9%, principally as a result of water purchases to a total of \$832,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Alton completed the year, its governmental funds reported a combined fund balance of \$916,795, an increase of more than \$380,000 above last year's total of \$536,658. The following are the most significant reasons for the changes in fund balances of the major funds from the prior year:

- The General Fund cash balance increased \$301,030 from the prior year to \$503,964. Approximately \$262,000 of this increase was due to a payment from Iowa Department of Transportation for the Highway 60 jurisdiction transfer. The City intends to use these receipts for future repair and maintenance of the highway.
- The Capital Projects Fund expended \$88,662 more than its receipts during the year, causing its balance to decrease to \$93,534. The excess expenditures were from bond proceeds for street construction received in the prior year.
- The Tax Incentive Financing Fund received \$44,812 more in tax collections and interest than its obligations for tax rebates. \$37,889 of that excess was transferred to the proprietary funds in reimbursement of infrastructure capital outlays, leaving a growth in the balance of \$6,923 to end the year with \$7,722.
- The Industrial Park Capital Project Fund received bond proceeds of \$463,360 as well as grants and other funding in excess of disbursements collectively of \$124,678, causing its balance to grow to \$124,678.
- The Debt Service Fund expended \$9,698 more on interest and principal payments than its tax and other receipts. However, the Fund also received a transfer of \$10,690 from the Industrial Park Capital Project fund, resulting in a net increase of \$992 and an ending balance of \$60,751.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$16,926 to \$173,868, due primarily to a rate increase.
- The Sewer Fund cash balance increased by \$19,699 to \$107,240, due primarily to fewer expenditures for repairs and maintenance.
- The Electric Fund cash balance increased by \$16,518 to \$389,518, due primarily to fewer expenditures for repairs and maintenance.

BUDGETARY HIGHLIGHTS

No amendment to the original budget was required during fiscal 2005.

	<u>Actual</u>	<u>Budget</u>
Receipts:		
General Fund	\$ 651,880	\$ 410,668
All Other Government Funds	521,027	395,144
Enterprise Funds	880,923	886,276
Total	<u>2,053,830</u>	<u>1,692,088</u>
Other Financing Sources, Net:		
Bond Proceeds	<u>476,156</u>	
Total Receipts and Other Financing Sources, Net	<u>\$ 2,529,986</u>	<u>\$ 1,692,088</u>
Expenditures:		
General Fund	\$ 391,350	\$ 410,668
All Other Government Funds	864,189	575,048
Enterprise Funds	<u>831,785</u>	<u>896,026</u>
Total	<u>\$ 2,087,324</u>	<u>\$ 1,881,742</u>

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$1,435,000 in general obligation bonds, compared to approximately \$1,075,000 last year. Debt increased as a result of issuing general obligation bonds for the industrial park construction project.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue up to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,435,000 is significantly below its constitutional debt limit of \$2,536,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET BUDGETS AND RATES

City of Alton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates, and fees that will be charged for various City activities.

These factors were taken into account when adopting the budget for fiscal year 2006. Amounts available for appropriation in the operating budget are \$3,295,000, an increase of \$1,603,000 over the final 2005 budget, mostly due to anticipated bond proceeds for capital project financing. The City will use these increases in receipts to finance programs we currently offer and to defray a portion of the costs of carrying out a major capital project of the City. Budgeted disbursements are expected to rise by approximately \$1,512,000, principally on the capital projects. The City has added no major new programs or initiatives other than the capital project to the 2006 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$99,000 by the close of fiscal 2006.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Dennis Dokter, City Clerk, P.O. Box 910, 905 Third Avenue, Alton, Iowa 51003-0910.

INDEPENDENT AUDITOR'S REPORT

***Nichols, Rise &
Company, L.L.P.***

Certified Public Accountants and Consultants

*Member of AICPA
Division for
Certified Public
Accounting Firms*

*Member of
Independent
Accountants
International*

To the Honorable Mayor and Members of the City Council
Alton, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Alton, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the index. These financial statements are the responsibility of the City of Alton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in the notes to the financial statements, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were not able to satisfy ourselves as to the distribution by fund of the total fund balance as of July 1, 2004.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance as of July 1, 2004, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Alton as of June 30, 2005, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in the notes to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2005, on our consideration of the City of Alton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the budgetary comparison information on pages 3 through 7 and 18 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Alton, Iowa's basic financial statements. The combining nonmajor fund financial statements, schedule of indebtedness, and schedule of annual debt service requirements are presented for purposes of additional analysis and are not a required part of the basic financial statements. These combining statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nichols, Rise & Company, L.L.P.

South Sioux City, Nebraska

October 7, 2005

CITY OF ALTON
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
GOVERNMENT-WIDE

As of and for the Year Ended June 30, 2005

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disburse- ments	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business- Type Activities	Total
Primary Government:							
Functions/Programs:							
Governmental Activities:							
Public Safety	\$ 117,807	\$ 20,255	\$	\$	\$ (97,552)	\$	\$ (97,552)
Public Works	108,401	41,825	353,045		286,469		286,469
Culture and Recreation	98,316	8,011			(90,305)		(90,305)
Community and Economic Development	172,766				(172,766)		(172,766)
General Government	89,309				(89,309)		(89,309)
Debt Service	147,448		10,947		(136,501)		(136,501)
Capital Projects	<u>521,492</u>			<u>101,999</u>	<u>(419,493)</u>		<u>(419,493)</u>
Total Governmental Activities	1,255,539	70,091	363,992	101,999	(719,457)	0	(719,457)
Business-Type Activities:							
Water	194,847	198,538				3,691	3,691
Electric	542,418	557,891				15,473	15,473
Sewer	88,101	99,132				13,031	13,031
Other Utility Functions	<u>8,419</u>		<u>2,805</u>			<u>(5,614)</u>	<u>(5,614)</u>
Total Business-Type Activities	<u>833,785</u>	<u>855,561</u>	<u>2,805</u>	<u>0</u>	<u>0</u>	<u>26,581</u>	<u>26,581</u>
Total	<u>\$ 2,089,324</u>	<u>\$ 925,652</u>	<u>\$ 366,797</u>	<u>\$ 101,999</u>	(719,457)	26,581	(692,876)
General Receipts:							
Property Tax Levied for:							
General Purposes					192,814		192,814
Tax Increment Financing					180,527		180,527
Debt Service					126,803		126,803
Local Option Sales Tax					83,780		83,780
Grants and Contributions Not Restricted to Specific Purpose							
Unrestricted Interest on Investments					20,000		20,000
Licenses and Permits					18,618	12,235	30,853
Bond Proceeds					12,822		12,822
Miscellaneous					464,380		464,380
					13,237	10,322	23,559
Transfers					<u>(13,389)</u>	<u>13,389</u>	<u>0</u>
Total General Receipts and Transfers					<u>1,099,592</u>	<u>35,946</u>	<u>1,135,538</u>
Change in Cash Basis Net Assets					380,135	62,527	442,662
Cash Basis Net Assets, July 1, 2004					<u>536,658</u>	<u>627,758</u>	<u>1,164,416</u>
Cash Basis Net Assets, June 30, 2005					<u>\$ 916,793</u>	<u>\$ 690,285</u>	<u>\$ 1,607,078</u>
Cash Basis Net Assets:							
Restricted:							
Streets					\$ 75,650	\$	\$ 75,650
Urban Renewal Purposes					7,722		7,722
Debt Service					60,751		60,751
Other Purposes					371,824	75,839	447,663
Unrestricted					<u>400,846</u>	<u>614,446</u>	<u>1,015,292</u>
Total Cash Basis Net Assets of Primary Government					<u>\$ 916,793</u>	<u>\$ 690,285</u>	<u>\$ 1,607,078</u>
Component Unit:							
Library Board:							
Functions/Programs:							
Governmental Activities:							
Culture and Recreation	\$ 21,646	\$ 1,142	\$ 21,217	\$ 30,512	\$ 31,225		\$ 31,225
Transfer to City of Alton	<u>25,700</u>				<u>(25,700)</u>		<u>(25,700)</u>
Total Component Unit	<u>\$ 47,346</u>	<u>\$ 1,142</u>	<u>\$ 21,217</u>	<u>\$ 30,512</u>	5,525		5,525
Cash Basis Net Assets, July 1, 2004					<u>24,200</u>		<u>24,200</u>
Cash Basis Net Assets, June 30, 2005					<u>\$ 29,725</u>		<u>\$ 29,725</u>

CITY OF ALTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2005

		Special Revenue				Other	
	General	Capital Projects Fund	Tax Incentive Financing	Industrial Park Fund	Debt Service	Nonmajor Governmental Funds	Total
Receipts:							
Property Tax	\$ 177,839	\$	\$	\$	\$ 126,803	\$ 14,975	\$ 319,617
Local Option Sales Tax	83,780						83,780
Tax Increment Financing Collections			180,527				180,527
Licenses and Permits	12,822						12,822
Use of Money and Property	14,007	1,386	369	2,137	1,661	719	20,279
Intergovernmental	282,000					96,365	378,365
Charges for Service	70,091						70,091
Special Assessments		35,949			9,286		45,235
Miscellaneous	<u>11,341</u>	<u>1,897</u>		<u>10,659</u>		<u>38,294</u>	<u>62,191</u>
Total Receipts	651,880	39,232	180,896	12,796	137,750	150,353	1,172,907
Disbursements:							
Operating:							
Public Safety	117,807						117,807
Public Works	39,500					68,901	108,401
Culture and Recreation	98,316						98,316
Community and Economic Development	32,682		136,084			4,000	172,766
General Government	88,190					1,119	89,309
Debt Service					147,448		147,448
Capital Projects	<u>14,855</u>	<u>127,894</u>		<u>340,808</u>		<u>37,935</u>	<u>521,492</u>
Total Disbursements	<u>391,350</u>	<u>127,894</u>	<u>136,084</u>	<u>340,808</u>	<u>147,448</u>	<u>111,955</u>	<u>1,255,539</u>
Excess (Deficiency) of Receipts Over Disbursements	260,530	(88,662)	44,812	(328,012)	(9,698)	38,398	(82,632)
Other Financing Sources (Uses):							
Bond Proceeds	1,000			463,380			464,380
Sale of Capital Assets						11,776	11,776
Operating Transfers In	39,500				10,690		50,190
Operating Transfers Out			(37,889)	(10,690)		(15,000)	(63,579)
Total Other Financing Sources (Uses)	<u>40,500</u>	<u>0</u>	<u>(37,889)</u>	<u>452,690</u>	<u>10,690</u>	<u>(3,224)</u>	<u>462,767</u>
Net Change in Cash Balances	301,030	(88,662)	6,923	124,678	992	35,174	380,135
Cash Balances, July 1, 2004	<u>202,934</u>	<u>182,196</u>	<u>799</u>		<u>59,759</u>	<u>90,970</u>	<u>536,658</u>
Cash Balances, June 30, 2005	<u>\$ 503,964</u>	<u>\$ 93,534</u>	<u>\$ 7,722</u>	<u>\$ 124,678</u>	<u>\$ 60,751</u>	<u>\$ 126,144</u>	<u>\$ 916,793</u>
Cash Basis Fund Balance:							
Reserved:							
Debt Service	\$	\$	\$	\$	\$ 60,751	\$	\$ 60,751
Unreserved:							
General Fund	503,964						503,964
Special Revenue Funds			7,722			94,119	101,841
Capital Projects Fund		<u>93,534</u>		<u>124,678</u>		<u>32,025</u>	<u>250,237</u>
Total Cash Basis Fund Balances, June 30, 2005	<u>\$ 503,964</u>	<u>\$ 93,534</u>	<u>\$ 7,722</u>	<u>\$ 124,678</u>	<u>\$ 60,751</u>	<u>\$ 126,144</u>	<u>\$ 916,793</u>

CITY OF ALTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the Year Ended June 30, 2005

	Enterprise Funds				
	Electric	Water	Sewer	Other Nonmajor Enterprise Funds	Total
Operating Receipts:					
Charges for Service	\$ 557,891	\$ 198,538	\$ 99,132	\$	\$ 855,561
Miscellaneous	<u>1,251</u>	<u>8,738</u>	<u>333</u>	<u>2,805</u>	<u>13,127</u>
Total Operating Receipts	559,142	207,276	99,465	2,805	868,688
Operating Disbursements:					
Business-Type Activities	<u>542,418</u>	<u>185,947</u>	<u>86,101</u>	<u>8,419</u>	<u>822,885</u>
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	16,724	21,329	13,364	(5,614)	45,803
Non-Operating Receipts (Disbursements):					
Interest on Investments	8,226	1,844	2,165		12,235
Debt Service	<u></u>	<u>(8,900)</u>	<u></u>	<u></u>	<u>(8,900)</u>
Total Non-Operating Receipts (Disbursements)	<u>8,226</u>	<u>(7,056)</u>	<u>2,165</u>	<u>0</u>	<u>3,335</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	24,950	14,273	15,529	(5,614)	49,138
Operating Transfer In	31,067	2,652	12,503	15,000	61,222
Operating Transfers Out	<u>(39,500)</u>	<u></u>	<u>(8,333)</u>	<u></u>	<u>(47,833)</u>
Net Change in Cash Balances	16,517	16,925	19,699	9,386	62,527
Cash Balances, July 1, 2004	<u>373,000</u>	<u>156,942</u>	<u>87,541</u>	<u>10,275</u>	<u>627,758</u>
Cash Balances, June 30, 2005	<u>\$ 389,517</u>	<u>\$ 173,867</u>	<u>\$ 107,240</u>	<u>\$ 19,661</u>	<u>\$ 690,285</u>
Cash Basis Fund Balances:					
Reserved for Debt Service	\$	\$	\$ 64,650	\$	\$ 64,650
Unreserved	<u>389,517</u>	<u>173,867</u>	<u>42,590</u>	<u>19,661</u>	<u>625,635</u>
Total Cash Basis Fund Balance, June 30, 2005	<u>\$ 389,517</u>	<u>\$ 173,867</u>	<u>\$ 107,240</u>	<u>\$ 19,661</u>	<u>\$ 690,285</u>

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Alton is a political subdivision of the State of Iowa located in Sioux County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the mayor-council form of government with the mayor and council members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and electric utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City of Alton has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and 1) the ability of the City to impose its will on that organization or 2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has one component unit which meets the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments.

Basis of Presentation

Government-Wide Financial Statements

The statement of activities and net assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The statement of activities and net assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among receipts are reported instead as general receipts.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Capital Project Fund is used to account for street construction and maintenance.

The Industrial Park Fund is used to account for capital projects related to new infrastructure in the City's industrial park.

The Tax Incentive Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the city's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

Measurement Focus and Basis of Accounting

The City of Alton maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as required supplementary information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development, general government, debt service, and capital project functions.

CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2005, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of drainage district.

At June 30, 2005, the City had the following investments:

<u>Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Certificates of Deposit	\$ <u>661,715</u>	July 2005-March 2007

Interest Rate Risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for bonds and notes are as follows:

<u>Year Ending June 30,</u>	<u>Water Revenue Bonds</u>		<u>Series 2004 and 2003 General Obligation Capital Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 5,000	\$ 3,450	\$ 95,000	\$ 45,150	\$ 100,000	\$ 48,600
2007	5,000	3,300	140,000	43,013	145,000	46,313
2008	5,000	3,150	150,000	39,303	155,000	42,453
2009	5,000	3,000	145,000	34,910	150,000	37,910
2010	6,000	2,850	130,000	30,343	136,000	33,193
2011	6,000	2,670	140,000	25,955	146,000	28,625
2012	6,000	2,490	135,000	20,950	141,000	23,440
2013	6,000	2,310	125,000	15,855	131,000	18,165
2014	6,000	2,130	60,000	10,980	66,000	13,110
2015	6,000	1,950	60,000	8,580	66,000	10,530
2016	7,000	1,770	70,000	6,090	77,000	7,860
2017	7,000	1,560	70,000	3,080	77,000	4,640
2018	7,000	1,350			7,000	1,350
2019	7,000	1,140			7,000	1,140
2020	7,000	930			7,000	930
2021	8,000	720			8,000	720
2022	8,000	480			8,000	480
2023	8,000	240			8,000	240
	<u>\$ 115,000</u>	<u>\$ 35,490</u>	<u>\$ 1,320,000</u>	<u>\$ 284,209</u>	<u>\$ 1,435,000</u>	<u>\$ 319,699</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund.

PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by the state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$12,857, \$12,683, and \$11,393, respectively, equal to the required contributions for each year.

COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours of subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2005, has not been determined because it cannot be reasonably estimated.

INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2005, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General Fund	Special Revenue:	
	Trust & Agency	\$ 15,000
	Enterprise:	
	Electric	<u>24,500</u>
		39,500
Debt Service	Special Revenue:	
	Industrial Park Capital Project	10,690
Enterprise:		
Water	Special Revenue:	
	Tax Increment Financing	2,652
Enterprise:		
Sewer	Special Revenue:	
	Tax Increment Financing	12,503
Enterprise:		
Electric	Special Revenue:	
	Tax Increment Financing	22,733
	Enterprise:	
	Sewer	<u>8,334</u>
		31,067
Enterprise:		
Gas Capital Project	General Fund	<u>15,000</u>
Total		<u>\$ 111,412</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

DEFICIT FUND BALANCE

The Hospital Capital Project Fund had a deficit balance of \$1,119 at June 30, 2005. The deficit balance was a result of preliminary attorney fees incurred for project start-up prior to availability of funds. The deficit will be eliminated upon receipt of bond proceeds.

CITY OF ALTON

REQUIRED SUPPLEMENTARY INFORMATION

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

Year Ended June 30, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Net Variance
				Original	Final	
Receipts:						
Property Tax	\$ 319,617	\$	\$ 319,617	\$ 318,064	\$ 318,064	\$ 1,553
Local Option Sales Tax	83,780		83,780	78,953	78,953	4,827
Tax Increment Financing Collections ..	180,527		180,527	172,282	172,282	8,245
Licenses and Permits	12,822		12,822	6,949	6,949	5,873
Use of Money and Property	20,279	12,235	32,514	28,940	28,940	3,574
Intergovernmental	378,365		378,365	105,000	105,000	273,365
Charges for Service	70,091	855,561	925,652	953,779	953,779	(28,127)
Special Assessments	45,235		45,235	27,421	27,421	17,814
Miscellaneous	62,191	13,127	75,318	700	700	74,618
Total Receipts	1,172,907	880,923	2,053,830	1,692,088	1,692,088	361,742
Disbursements:						
Public Safety	117,807		117,807	123,268	123,268	(5,461)
Public Works	108,401		108,401	175,633	175,633	(67,232)
Health and Social Services			0	1,000	1,000	(1,000)
Culture and Recreation	98,316		98,316	119,423	119,423	(21,107)
Community and Economic Development	172,766		172,766	166,589	166,589	6,177
General Government	89,309		89,309	50,544	50,544	38,765
Debt Service	147,448		147,448	136,359	136,359	11,089
Capital Projects	521,492		521,492	212,900	212,900	308,592
Business-Type Activities		831,785	831,785	896,026	896,026	(64,241)
Total Disbursements	1,255,539	831,785	2,087,324	1,881,742	1,881,742	205,582
Excess (Deficiency) of Receipts Over Disbursements	(82,632)	49,138	(33,494)	(189,654)	(189,654)	156,160
Other Financing Sources, Net	462,767	13,389	476,156			476,156
Excess (Deficiency) of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	380,135	62,527	442,662	(189,654)	(189,654)	632,316
Cash Balances, July 1, 2004	536,658	627,758	1,164,416	1,121,651	1,121,651	42,765
Cash Balances, June 30, 2005	<u>\$ 916,793</u>	<u>\$ 690,285</u>	<u>\$ 1,607,078</u>	<u>\$ 931,997</u>	<u>\$ 931,997</u>	<u>\$ 675,081</u>

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

The budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. There were no budget amendments during the year.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the community and economic development, general government, debt service, and capital projects functions.

CITY OF ALTON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
NONMAJOR GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2005

	Road Use Tax Fund	Trust & Agency Fund	Hospital Capital Project Fund	Library Capital Project Fund	Residential Development Capital Project Fund	Total
Receipts:						
Property Tax	\$	\$ 14,975	\$	\$	\$	\$ 14,975
Use of Money and Property		719				719
Intergovernmental	91,045			5,320		96,365
Miscellaneous				38,294		38,294
Total Receipts	<u>91,045</u>	<u>15,694</u>	<u>0</u>	<u>43,614</u>	<u>0</u>	<u>150,353</u>
Disbursements:						
Operating:						
Public Works	68,901					68,901
Community and Economic Development					4,000	4,000
General Government			1,119			1,119
Capital Projects	1,267			36,492	176	37,935
Total Disbursements	<u>70,168</u>	<u>0</u>	<u>1,119</u>	<u>36,492</u>	<u>4,176</u>	<u>111,955</u>
Excess (Deficiency) of Receipts Over Disbursements	20,877	15,694	(1,119)	7,122	(4,176)	38,398
Other Financing Sources (Uses):						
Sale of Capital Assets					11,776	11,776
Operating Transfers Out		(15,000)				(15,000)
Total Other Financing Sources (Uses)	<u>0</u>	<u>(15,000)</u>	<u>0</u>	<u>0</u>	<u>11,776</u>	<u>(3,224)</u>
Net Change in Cash Balances	20,877	694	(1,119)	7,122	7,600	35,174
Cash Balances, July 1, 2004	<u>54,773</u>	<u>17,775</u>		<u>9,951</u>	<u>8,471</u>	<u>90,970</u>
Cash Balances, June 30, 2005	\$ <u>75,650</u>	\$ <u>18,469</u>	\$ <u>(1,119)</u>	\$ <u>17,073</u>	\$ <u>16,071</u>	\$ <u>126,144</u>
Cash Basis Fund Balances:						
Unreserved:						
Special Revenue Funds	\$ 75,650	\$ 18,469	\$	\$	\$	\$ 94,119
Capital Project Funds			(1,119)	17,073	16,071	32,025
Total Cash Basis Fund Balances, June 30, 2005	<u>\$ 75,650</u>	<u>\$ 18,469</u>	<u>\$ (1,119)</u>	<u>\$ 17,073</u>	<u>\$ 16,071</u>	<u>\$ 126,144</u>

CITY OF ALTON
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS

As of and for the Year Ended June 30, 2005

	Enterprise Funds		
	Gas Fund	Meter Deposit	Total
Operating Receipts:			
Miscellaneous	\$	\$ 2,805	\$ 2,805
Operating Disbursements:			
Business-Type Activities	6,540	1,879	8,419
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	(6,540)	926	(5,614)
Operating Transfers In	15,000		15,000
Net Change in Cash Balances	8,460	926	9,386
Cash Balances, July 1, 2004	12	10,263	10,275
Cash Balances, June 30, 2005	<u>\$ 8,472</u>	<u>\$ 11,189</u>	<u>\$ 19,661</u>
Cash Basis Fund Balances:			
Unreserved	<u>\$ 8,472</u>	<u>\$ 11,189</u>	<u>\$ 19,661</u>

CITY OF ALTON
SCHEDULE OF INDEBTEDNESS

Year Ended June 30, 2005

	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
Water Revenue Bonds	10-15-03	3.00%	\$ 125,000	\$ 120,000	\$	\$ 5,000	\$ 115,000	\$ 3,600
General Obligation Capital Notes:								
Series 2004 Industrial Park	10-01-04	3.33%	470,000		470,000		470,000	10,490
Series 2003 Library and Street Improvement	12-01-03	3.96%	<u>1,015,000</u>	<u>955,000</u>		<u>105,000</u>	<u>850,000</u>	<u>31,447</u>
			<u>\$ 1,610,000</u>	<u>\$ 1,075,000</u>	<u>\$ 470,000</u>	<u>\$ 110,000</u>	<u>\$ 1,435,000</u>	<u>\$ 45,537</u>

CITY OF ALTON
SCHEDULE OF BOND AND NOTE MATURITIES

Year Ended June 30, 2005

Year Ended June 30,	General Obligation Capital Notes						
	Water Revenue Bonds		Series 2004 Industrial Park		Series 2003 Library and Street Improvement		Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2006	\$ 5,000	3.00%	\$	2.65%	\$ 95,000	2.25%	\$ 100,000
2007	5,000	3.00%	60,000	2.65%	80,000	2.65%	145,000
2008	5,000	3.00%	65,000	2.90%	85,000	2.95%	155,000
2009	5,000	3.00%	65,000	3.15%	80,000	3.15%	150,000
2010	6,000	3.00%	65,000	3.35%	65,000	3.40%	136,000
2011	6,000	3.00%	70,000	3.55%	70,000	3.60%	146,000
2012	6,000	3.00%	70,000	3.75%	65,000	3.80%	141,000
2013	6,000	3.00%	75,000	3.90%	50,000	3.90%	131,000
2014	6,000	3.00%			60,000	4.00%	66,000
2015	6,000	3.00%			60,000	4.15%	66,000
2016	7,000	3.00%			70,000	4.30%	77,000
2017	7,000	3.00%			70,000	4.40%	77,000
2018	7,000	3.00%					7,000
2019	7,000	3.00%					7,000
2020	7,000	3.00%					7,000
2021	8,000	3.00%					8,000
2022	8,000	3.00%					8,000
2023	8,000	3.00%					8,000
	\$ 115,000		\$ 470,000		\$ 850,000		\$ 1,435,000

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

***Nichols, Rise &
Company, L.L.P.***

Certified Public Accountants and Consultants

*Member of AICPA
Division for
Certified Public
Accounting Firms*

*Member of
Independent
Accountants
International*

To the Honorable Mayor and Members of the City Council
Alton, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Alton, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 7, 2005. The City's financial statements were prepared in conformity with an other comprehensive basis of accounting. Our report on each of the basic financial statements was qualified because the City's financial statements had not been audited in all previous years and we were not able to satisfy ourselves as to the distribution by fund of the total fund balance as of July 1, 2004. Except as discussed in the preceding sentence, we conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Alton, Iowa's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to records, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the following paragraph.

Segregation of Duties

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetuate and conceal errors or irregularities. To accomplish a proper segregation of duties, the system, insofar as possible, should provide for different individuals to perform the functions of (a) authorizing transactions, (b) recording transactions, (c) maintaining custody of the assets that result from transactions, and (d) comparing assets with the related amounts recorded in the accounting records. In performing our audit, we noted that two people have primary responsibility for all accounting and financials duties of the City.

Recommendations - The size of the City's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the City Council remain actively involved in the financial affairs of the City to provide oversight and review functions. In addition, the City should periodically review the operating procedures and make changes as necessary to obtain the maximum internal control under the circumstances.

Response - City administration and the Council understand the nature of the weakness and the necessity for the Council to provide oversight and review controls. Procedures will be reviewed and changes will be implemented when deemed necessary and practical.

Conclusion - Response accepted.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Alton, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying schedule of findings related to required statutory reporting.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Alton, Iowa, and other parties to whom the City may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Nichols, Rise & Company, L.L.P.

South Sioux City, Nebraska
October 7, 2005

CITY OF ALTON
SCHEDULE OF FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

June 30, 2005

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- 05-A **Official Depositories** - A resolution naming an official depository for the City of Alton, Iowa, has been adopted by the Alton City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- 05-B **Certified Budget** - Disbursements during the year ended June 30, 2005, exceeded the amounts budgeted in the Community and Economic Development, General Government, Debt Service, Capital Projects, and Business-Type Activities Functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.
- Recommendation** - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response** - The budget will be amended in the future, if applicable.
- Conclusion** - Response accepted.
- 05-C **Questionable Disbursements** - No disbursements of City funds not meeting the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
- 05-D **Travel Expense** - No disbursements of City funds for travel expenses of spouses of City officials or employees were noted.
- 05-E **Business Transactions** - No business transactions between the City and City officials or employees were noted.
- 05-F **Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- 05-G **Council Minutes** - No transactions of the City were found that we believe should have been approved in the council minutes but were not. The City published minutes of Council proceedings as required, but did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.
- Recommendation** - The City should publish annual gross salaries as required.
- Response** - We will publish annual individual salaries as required.
- Conclusion** - Response accepted.
- 05-H **Deposits and Investments** - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- 05-I **Revenue Notes** - The City has complied with the water revenue bond resolution.

CITY OF ALTON
SCHEDULE OF FINDINGS RELATED TO REQUIRED STATUTORY REPORTING (CONTINUED)

June 30, 2005

05-J **Economic Development** - The City made the following economic development expenditures during the year ended June 30, 2005:

Disbursements Related to Residential Development:

Seeding	\$ 4,176
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Disbursements Related to Both Residential and Industrial Development:

Storefront Renovations	1,000
Consultants	<u>30,000</u>

Total Economic Development Expenditures	\$ <u>35,176</u>
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Recommendation - The Council should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require recipients to provide documentation of how the funds were used to accomplish economic development activities.

Response - We will do this.

Conclusion - Response accepted.

05-K **Financial Condition** - The Hospital Capital Project Fund had a deficit balance at June 30, 2005, of \$1,119.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - The deficit was due to preliminary legal fees incurred prior to issuance of bonds for the project. The deficit will be subsequently eliminated.

Conclusion - Response accepted.